

# 1

## HOW TO USE THIS BOOK

This volume is a collection of CPA problems and solutions. The text is designed and organized to be used in conjunction with Volume 1, *CPA Examination Review: Outlines and Study Guides*, but may be used with or without any other study source. Each module in this volume corresponds to a module in Volume 1. In this volume, a module consists of

1. Multiple-choice questions
2. Simulation problems
3. Unofficial answers for the multiple-choice questions with the author's explanations
4. Answers for simulation problems

The sources of the problem material in each module are, of course, the four sections of the CPA Exam. The modules are grouped together into chapters, which correspond with the four sections of the exam. The following table shows how the modules are organized in Volume 2.

**CPA EXAM SECTION AND CORRESPONDING MODULES**

|                                    |          |               |
|------------------------------------|----------|---------------|
| Auditing and Attestation           | CH 2     | Modules 1-6   |
| Financial Accounting and Reporting | CH 3     | Modules 7-20  |
| Regulation                         | CH 5 & 6 | Modules 21-37 |
| Business Environment and Concepts  | CH 7     | Modules 38-45 |

The material in Volume 2 allows candidates to work CPA exam questions, some of which have appeared on previous examinations. This provides candidates with an effective method of studying the material tested on the exam. However, candidates should also realize that the CPA has new material. Therefore, candidates should use the study guides and outlines included in Volume 1 as a means of bridging this gap.

Also included at the end of this volume are sample exams for all four sections. They are included to enable candidates to gain experience in taking a "realistic" exam. While working through the modules, the candidate can become accustomed to concentrating on a fairly narrow range of topics. By taking the sample examinations near the end of their study program, candidates will be better prepared for taking the actual examination.

Before you begin working the CPA problems in this volume, peruse the table of contents and scan through the book, noting the manner in which the chapters and modules are organized. The schedule at the beginning of each chapter provides an index to the simulations and problems appearing in each module. Some questions have been modified to reflect recent changes in law or practice. For a complete analysis of recent examinations and the AICPA Uniform CPA Examination Content Specification Outlines of future examinations, see the beginning of each chapter starting with Chapter 5 in Volume 1, *Outlines and Study Guides*.

### ***Multiple-Choice Questions***

The multiple-choice questions and answer explanations can be used in many ways. First, they may be used as a diagnostic evaluation of your knowledge. For example, before beginning to review audit sampling you may wish to answer every fourth multiple-choice question to determine your ability to answer CPA examination questions on audit sampling. The apparent difficulty of the questions and the correctness of your answers will allow you to determine the necessary breadth and depth of your review. Additionally, exposure to examination questions prior to review and study of the material should provide motivation. You will develop a feel for your level of proficiency and an understanding of the scope and difficulty of past examination questions.

Second, the multiple-choice questions can be used as a poststudy or postreview evaluation. You should attempt to understand all concepts mentioned (even in incorrect answers) as you answer the questions. Refer to the explanation of the answer for discussion of the alternatives even though you selected the correct response. Thus, you should read the explanation of the unofficial answer unless you completely understand the question and all of the alternative answers.

Third, you may wish to use the multiple-choice questions as a primary study vehicle. This is probably the quickest, but least thorough, approach. Make a sincere effort to understand the question and to select the correct reply before referring to the answer and explanation. In many cases the explanations will appear inadequate because of your unfamiliarity with the topic.

The multiple-choice questions in Volume 2 are grouped into study sets. The study sets include a smaller amount of related material than the study modules, which provides greater flexibility in the individual candidate's study strategy. The answer explanations for the multiple-choice questions in Volume 2 also include headings which provide cross-references to the text material in Volume 1. For example, in Module 9, Fixed Assets, the heading "F. Depreciation" appears above the answers to those questions dealing with depreciation. The topical coverage of depreciation in Volume 1 can then be found by referring to the corresponding heading within Module 9.

One of the benefits of working through multiple-choice questions is that it helps you to identify your weak areas. Once you have graded your answers, your strong areas and weak areas should be clearly evident. Yet, the important point here is that you should not stop at a simple percentage evaluation. The percentage only provides general feedback about your knowledge of the material contained within that particular module. The percentage **does not** give you any specific feedback regarding the concepts which were tested. In order to get this feedback, you should look at the questions missed on an individual basis because this will help you gain a better understanding of **why** you missed the question. This feedback process has been facilitated by the fact that within each module where the multiple-choice answer key appears, two blank lines have been inserted next to the multiple-choice answers. As you grade the multiple-choice questions, mark those questions which you have missed. However, instead of just marking the questions right and wrong, you should now focus on marking the questions in a manner which identifies **why** you missed the question. As an example, a candidate could mark the questions in the following manner: ✓ for math mistakes, x for conceptual mistakes, and ? for areas which the candidate was unfamiliar with. The candidate should then correct these mistakes by reworking through the marked questions. The objective of this marking technique is to help you identify your weak areas and thus, the concepts which you should be focusing on. While it is still important for you to get between 75% and 80% correct when working multiple-choice questions, it is more important for you to understand the concepts. This understanding applies to both the questions answered correctly and those answered incorrectly. Remember, most of the questions on the CPA exam will be different from the questions in the book; however, the concepts will be the same. Therefore, your preparation should focus on understanding concepts, not just getting the correct answer.

The multiple-choice questions substantially outnumber the simulation problems in this book. This is similar to what can be expected on the CPA exam. The multiple-choice questions make up about 75% of the total examination.

One difficulty with so many multiple-choice questions is that you may overemphasize them. Candidates generally prefer to work multiple-choice questions because they are shorter and less time consuming and solvable with less effort.

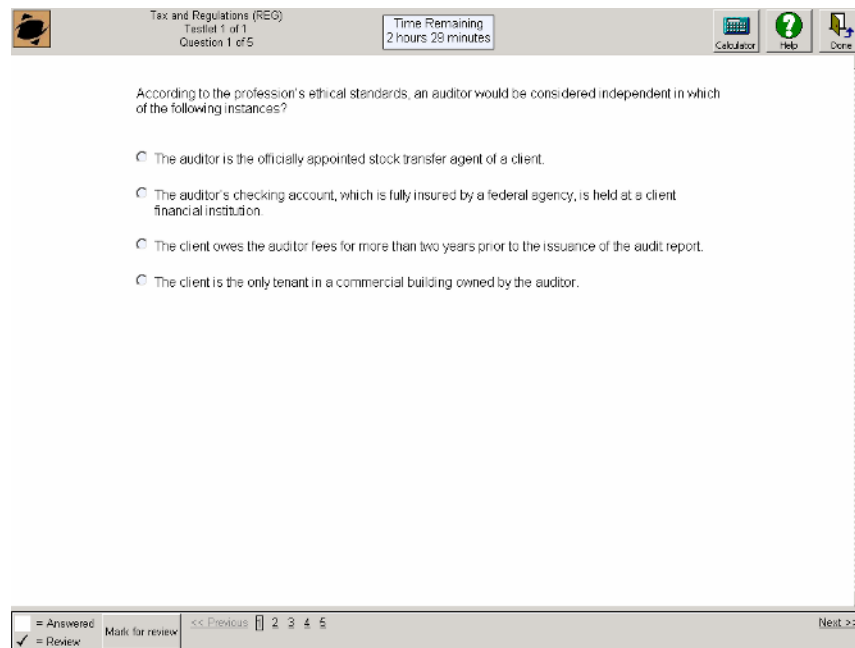
Simulations require the ability to organize and compose a solution, as well as knowledge of the subject matter. Remember, working simulations from start to finish is just as important as, if not more important than, working multiple-choice questions.

Another difficulty with the large number of multiple-choice questions is that you may tend to become overly familiar with the questions. The result may be that you may begin reading the facts and assumptions of previously studied questions into the questions on your examination. Guard against this potential problem by reading each multiple-choice question with **extra** care.

Although not as critical as for simulations, the solutions approach (a systematic problem-solving methodology) is relevant to multiple-choice questions.

### ***Multiple-Choice Screen Layout***

The following is a computer screenshot that illustrates the manner in which multiple-choice questions will be presented:



As indicated previously, multiple-choice questions will be presented in three individual testlets of 24 to 30 questions each. Characteristics of the computerized testlets of multiple-choice questions include the following:

1. You may move freely within a particular testlet from one question to the next or back to previous questions until you click the “Done” button. Once you have indicated that you have finished the testlet by clicking on the “Done” button, you can never return to that set of questions.
2. A button on the screen will allow you to mark a question for review if you wish to come back to it later.
3. A computer calculator is available as a tool.
4. The time remaining for the entire exam section is shown on the screen.
5. The number of the questions out of the total in the testlet is shown on the screen.
6. The “Help” button will provide you with help in navigating and completing the testlet.

The screenshot above was obtained from the AICPA’s tutorial at [www.cpa-exam.org](http://www.cpa-exam.org). Candidates are urged to complete the tutorial and other example questions on the AICPA’s Web site to obtain additional experience with the computer-based testing.

### ***Multiple-Choice Questions Solutions Approach Algorithm***

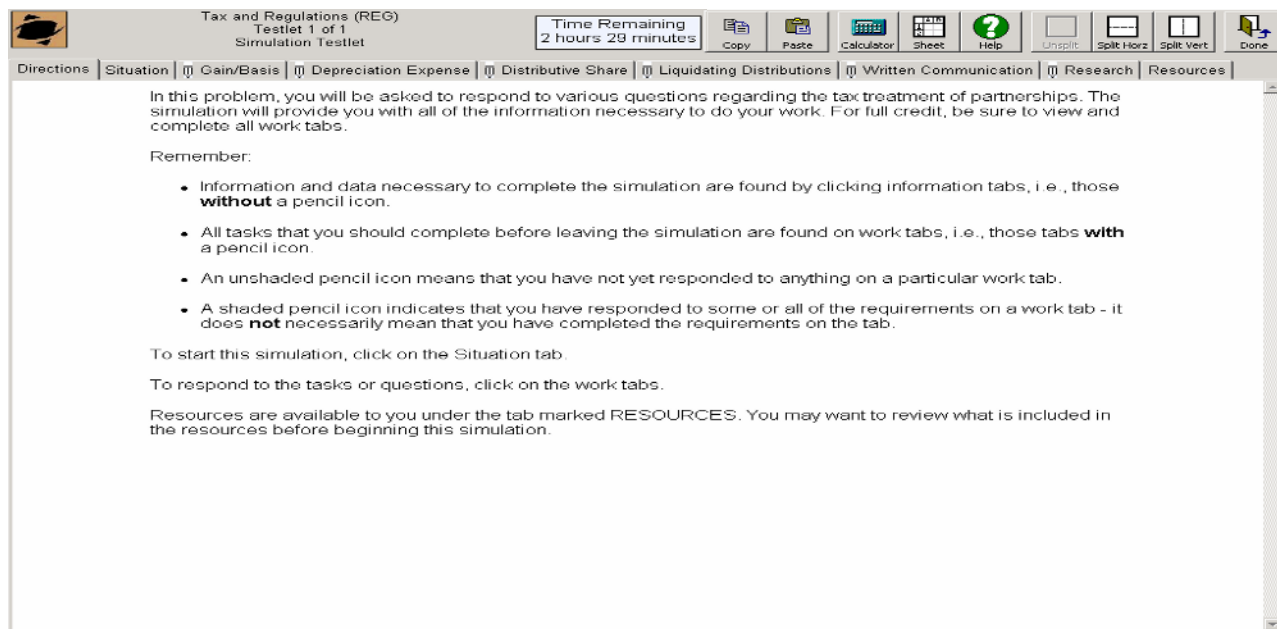
1. **Work individual questions in order.**
  - a. If a question appears lengthy or difficult, skip it until you can determine that extra time is available. Mark it for review to remind you to return to it later.
2. **Read the stem of the question without looking at the answers.**
  - a. The answers are sometimes misleading and may cause you to misread or misinterpret the question.
3. **Read each question *carefully* to determine the topical area.**
  - a. Study the requirements **first** so you know which data are important
  - b. Note keywords and important data
  - c. Identify pertinent information
  - d. Be especially careful to note when the requirement is an **exception** (e.g., “Which of the following is **not** an effective disclaimer of the implied warranty of merchantability?”).
  - e. If a set of data is the basis for two or more questions, read the requirements of each of the questions before beginning to work the first question (sometimes it is more efficient to work the questions out of order)

- f. Be alert to read questions as they are, not as you would like them to be. You may encounter a familiar looking item; don't jump to the conclusion that you know what the answer is without reading the question completely.
4. **Anticipate the answer before looking at the alternative answers.**
  - a. Recall the applicable principle (e.g., offer and acceptance, requisites of negotiability, etc.) and the respective applications thereof.
  - b. If a question deals with a complex area, it may be very useful to set up a timeline or diagram using abbreviations.
5. **Read the answers and select the *best* alternative.**
6. **Click on the correct answer (or your educated guess).**
7. **After completing all of the questions including the ones marked for review click on the "Done" button to close out the testlet. Remember once you have closed out the testlet you can never return to it.**

Currently, all multiple-choice questions are scored based on the number correct, weighted by a difficulty rating (i.e., there is no penalty for guessing). The rationale is that a "good guess" indicates knowledge. Thus, you should answer all multiple-choice questions.

### Simulations

The simulations have multiple parts separated by computer tabs. Typically they begin with directions and a situation and continue with various tabs requiring responses and a resource tab. An example of simulation instructions is shown below.



While the tabs without the pencils are informational in nature, the tabs with pencils require a response. The responses may involve checking a list, selecting from a pull-down menu, inputting words or a quantity, re-researching an issue, or writing a memo.

To complete the simulations, candidates are provided with a number of tools, including

- Calculator
- The ability to split windows to show two tabs on the screen (e.g., you can examine the situation tab in one window and a particular requirement in a second window)
- Access to professional literature databases to answer research requirements
- Scratch spreadsheet

In addition, the resource tab provides other resources that may be needed to complete the problem. For example, a resource tab might contain a present value table for use in answering a lease problem.

A window on the screen shows the time remaining for the entire section and the “Help” button provides instructions for navigating the simulation and completing the requirements.

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### ***Simulations Solutions Approach Algorithm***

The following solutions approach is suggested for answering simulations:

1. **Review the entire problem.** Tab through the problem in order to get a feel for the topical area and related concepts that are being tested. Even though the format of the question may vary, the exam continues to test your understanding of applicable principles or concepts. Relax, take a deep breath, and determine your strategy for conquering the simulation.
2. **Identify the requirements of the problem.** This step will help you focus in more quickly on the solution(s) without wasting time reading irrelevant material.
3. **Study the items to be answered.** As you do this and become familiar with the topical area being tested, you should recall the concepts of that area. This will help you organize your thoughts so that you can relate logically the requirements of the simulation with the applicable concepts.
4. **Answer each tab requirement one at a time.** If the requirements don’t build on one another, don’t be afraid to answer the tab requirements out of order. Also, if the scenario is long or complex, you may wish to use the split screen function to enable you to view the simulation data while answering a requirement.
5. **Use scratch paper (which will be provided) and the spreadsheet and calculator tools to assist you in answering the simulation.**

### ***Research Requirements of Simulations***

Research tabs of simulations require candidates to search the professional literature and income tax code and regulations in electronic format and interpret the results. The table below describes the research material that will be available for each section of the exam that includes simulations.

| <u>Section</u>                     | <u>Potential research resources</u>                                                                                                                                                                                                                                   |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Auditing and Attestation           | <ul style="list-style-type: none"> <li>• Statements on Auditing Standards and Interpretations</li> <li>• Statements on Attestation Standards and Interpretations</li> <li>• Statements on Standards for Accounting and Review Services and Interpretations</li> </ul> |
| Financial Accounting and Reporting | <ul style="list-style-type: none"> <li>• FASB Current Text and Original Pronouncements</li> </ul>                                                                                                                                                                     |
| Regulation                         | <ul style="list-style-type: none"> <li>• Internal Revenue Code</li> </ul>                                                                                                                                                                                             |

### ***Diagnose Your Weaknesses prior to the Exam***

This volume of problems and solutions provides you with an opportunity to diagnose and correct any exam-taking weaknesses prior to your taking the examination. Continuously analyze the contributing factors to incomplete or incorrect solutions to CPA questions prepared during your study program. General categories of candidates’ weaknesses include

1. Failure to understand the exam question requirements
2. Misunderstanding the supporting text of the problem
3. Lack of knowledge of material tested, especially recently issued pronouncements
4. Failure to develop proficiency with practice tools such as electronic research databases and spreadsheets
5. Inability to apply the solutions approach
6. Lack of an exam strategy (e.g., allocation of time)
7. Sloppiness and computational errors
8. Failure to proofread and edit

### ***Time Management***

Each section of the CPA exam will contain a number of multiple-choice testlets, and all of the sections except Business Environment and Concepts will contain two simulations. As you complete each testlet keep track of how you performed in relation to the AICPA suggested times. After you finish the multiple-choice testlets, budget your time for the simulations based on your remaining time and the AICPA suggested times.

For example, if you have two hours remaining to complete two simulations that each have the same AICPA suggested time, budget one hour for each simulation. Remember that you alone control watching your progress towards successfully completing this exam.

***Additional Study Aids***

A more complete discussion of the solutions approach, including illustrations thereof, appears in Chapter 3 of Volume 1, Outlines and Study Guides. Additionally, use of “note cards” as an integral part of your study program is discussed and illustrated in Chapter 1 of Volume 1. Chapter 4 of Volume 1 includes a detailed checklist to assist candidates with their last-minute preparation and to provide guidance concerning the actual taking of the exam.

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**NOW IS THE TIME  
TO MAKE A COMMITMENT**

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